195 48 **File No.** 9745/36

P.W **DEPARTMENT**

B CLASS E **BRANCH** R

Subject:— Administrative Enquiry Committee Public corporations for conducting State Trading activities

Pages- 84, 85, 86, 87, 88, 89 + 90.

BK 1948

File No. 9745/36 E Br R

Ftd. Sectt. Slip. 84 A

G.R., G.D., No. 2408, dated 22-6-22.]

Correspondence

DOCKET SHEET

Subject :—

File No. 9745/36

B.W. **DEPT.**

E **BRANCH.** R

References :—

Date	To whom sent.	Notes and instructions.

Copy of paragraph 84 from the Report of the Administrative Enquiry Committee.

DIFFERENCE BETWEEN THE METHODS OF INDUSTRY AND GOVERNMENT.

84. There is a fundamental difference between the working of Government and methods of business which is apt to be overlooked. The former is regulative and is concerned with the administration of the law and rules, while the latter are productive, in that they produce and distribute goods or render services on payment. While Government departments have to confine their activities within set limits prescribed by legislation, departmental rules and treasury control, business concerns have to conduct their affairs with an eye on the balance sheet. The qualities required in a Government officer are integrity, honesty and sound judgment, while a businessman must possess, in addition to these, drive, energy and quick responsiveness to changing circumstances. The technique and procedure evolved for the transaction if governmental business are thus unsuitable for a commercial undertaking. The method of pay and promotion also in a business concern has to be such as to maintain a high standard of individual efficiency and to stimulate ambition rather than to ensure security and contentment.

Id/-
22/7.

Copy of paragraph 85 from the Report of the Administrative Enquiry Committee.

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85. For these reasons we feel convinced that a public corporation is the best instrument for conducting State trading activities.

Id/- 22/7.

Copy of paragraph 86 from the Report of the Administrative Enguiry Committee.

THE PUBLIC CORPORATION.

86. The idea of the public corporation to conduct public enterprises was evolved so as to combine the indepen dence and flexibility of private business with the necessity of public control. It has two advantages over departmental management of industry. Firstly, the industry is in the hands of a board which is subject to ministerial control only in matters of general policy; and secondly, it operates as a self-sufficient unit, balancing its income against expenditure over a given period. The public corporation is thus assured freedom from political interference and treasury control in its day-to-day administration. Responsibility to the public is maintained by the appointment of the governing board of the corporation by the Minister, who is answerable to the Legislature. We have given considerable thought to the question whether this board should be deliberative or functional. Since matters of general policy are laid down by the Minister, the balance of advantage seems to lie in favour of having a small functional board, so appointed as to cover the basic pattern of the industry brought under public control. The members of the board should be selected on the basis of competence and ability to administer the industry efficiently in the public interest. Subject to the above qualifications being satisfied, representation may be given to the various interests concerned in the industry. We suggest that the members of the board should retire by rotation so as to maintain continuity of experience. It may be desirable in some cases to form advisory committees through which the several interests affected by the operations of the corporation can represent their views.

Id/-
22/7-

Copy of paragraph 87 from the Report of the Administrative Enquiry Committee.

87. The chief post-war development of the public corporation in Great Britain and elsewhere has been that it is made subject to a greater degree of ministerial direction. Previously, a Minister's powers and responsibilities were in effect confined to the appointment of the board and to acting as its spokesman in Parliament. Though he was answerable for its general policy, the principle of non-intervention was interpreted so widely as to exclude discussion in Parliament of any subject other then very general questions in of policy. So long as the nationalised industries could work as self-contained and self-supporting units and were not required to fit in with the national economic plan, the absence of ministerial direction was not felt. But the position was altered when key industries such as coal, transport and electricity began to be nationalised, and the need arose for a unified, co-ordinated and planned direction. On the whole we feel that the public corporation should be subject to ministerial control only in matters of internal organisation or administrative details should be avoided. We would further recommend that before issuing directions to a public corporation the Minister should consult the governing board on the points involved. Public accountability can be enforced by questions to the Minister on general matters, occasional debates and discussion on the presentation of annual reports and accounts in the legislature. In the case of a subsidised industry a further opportunity will be provided at the budget stage.

Id/-
22/7

Copy of paragraph 89 from the Report of the Administrative Enquiry Committee.

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89. As a public enterprise partakes of the character of a monopoly concern, even though under public control it is desirable that neither the corporation nor the Minister should have the power to make price or rate variations without consulting some outside agency. There should, therefore, be a statutory provision for previous consultation with the advisory committees before the limits of rate variations are altered.

Copy of paragraph 90 from the Report of the Administrative Enquiry Committee.

CORPORATION SERVICE.

90. It should be made perfectly clear that service under a corporation is not Government service. The conditions of service in a corporation should be similar to those in a business concern. The selection of technical officers should be made not through the Public Service Commission but through ad-hoc committees appointed by the board consisting of experts if necessary, taken from outside. These officers should be recruited by preference from the trade so that they possess the requisite business acumen and experience.

Id/-
22/7

No. 3063/46-B.

Political and Services Department,
Bombay Castle, 19th July, 1948.

Subject:- ADMINISTRATIVE ENQUIRY COMMITTEE.
Implementation of the recommendations of the --

MEMORANDUM.

The undersigned presents fompliments to the Secratary to Government, Public Works Department and is directed to invite a reference to paragraphs 84,85,86,87,89 and 90 of the Report of the Administrative Enquiry Committee and to state that the Committee have made the following recommendations on the functioning of a public corporation:

1) A public corporation is the best instrument for conducting state trading activities;

2) The Governing Body of a corporation should be a small functioning board appointed by the Ministers;

3) Ministerial control over a public corporation should as a rule be limited to matters of general policies. Interference in matters of organisation or administrative detail should be avoided;

4) There should be statutory provision for previous consultation with the advisory committees where they exist before the limits of the rate variations are altered;

5) Sefvice under a corporation should not be treated as service under Government; and

6) The corporation should select its technical staff through Committees of experts set up for that purpose.

It is requested that these suggestions may kindly be considered so far as the Public Works Department is concerned and this Department may be favoured with its remarks in the matter at a very early date.

By order of the Governor of Bombay,

Sd/-
For Chief Secretary to the Government of Bombay,
Political and Services Department.

To

All Departments of the Secretariat
(except the Legal Department, Separate Department, Finance Department, Health and ~~xxxxx~~ Local Government Department, Reconstruction Department and Relief and Rehabilation Department.)

Id/-
17-7-48.

9745/36/39194

Letter.

V.Urgent.

No. 9745/36-B(R)

P.W.D.

B.C. 24th July 1948.

To

The El. Commr. with the G. of B.

Subt:- A.R.C. Report, 1948.

Ref. paras 84-87, 89-90 of the A.R.C. Report, 1948.

2. A copy of G.H., P. and S.D., No. 3063/46-B, dated the 19-7-48, is enclosed for favour of very early remarks with particular ref. to the provisions contained in the Electricity (Supply) Bill 1948, which has been introduced in the Indian Parliament.

3. You are requested to submit the report, in duplicate, with ref. to each of the above paras separately.

By order of the G. of B.

Id/-
23-7-48.

D.A:
Copy of the
P. & S.D. Memo.

VERY URGENT.
Letter.
In duplicate.

No. G.92/12921
Electric Grid Offices,
Foreshore Road,
Bombay 1: 28th July, 1948.

To

The Secretary to Government,
Public Works Department,
Bombay.

Subject: Administrative Enquiry Committee Report, 1948

Reference: Government Letter, P.W.D.
No.9745/36-E(R), dated 24th July 1948.

In connection with the subject and reference cited above, reference is invited to my letter No.G. 92/12858,

2. I give my remarks on paras 84 to 90 as below:-

Para. 84 :- The Committee points out that there is a fundamental difference between the working of Government and methods of business. They enumerate these differences. They point out that the technique and procedure evolved for the transaction of Government business are unsuitable for a commercial undertaking.

Experience in England and in India has shown that the views of the Committee are sound and I am personally entirely in agreement with them.

Para.85 :- For the reasons given by the Committee in para.84, they feel convinced that a public Corporation is the best instrument for conducting State-trading activities.

Here again, experience has shown that the views of the Committee are sound and in England they have been adopted extendively and are being adopted in India. An example of this is the recently passed Act of the Indian Parliament in connection with the development of the Damodar Valley. The Act is called "The Damodar Valley Corporation Act, 1948" (INDIA ACT No. XIV of 1948), which provided for the development of this Valley by a statutory authority. At the initiative of Bombay Government, the Government of India have drafted the Indian Electricty (Supply) Bill, which is

which is now before the Indian Parliament and is expected to be enacted in the course of the next few weeks. The Bill, when it becames law, will make it obligatory for the various Provincial Governments to set up Provincial Electricity Boards, which will be semi-autonomous authorities. They will be charged with the obligation of development of electric supply in the areas in their own jurisdiction on commercial lines.

Para. 86 :- The main points made by the Committee in this para.are that (1) the governing body of a corporation or a statutory Board should be a small functioning Board appointed by the Government; (2) Ministerial control over the corporation should, as a rule, be limited to matters of general policies, and (3) interference in matters of organisation or administrative details should be avoided.

These and connected matters have been taken care of in the Indian Electricity (Supply) Bill, 1948. Under Section 5 of that Bill, it has been provided that the Board shall be a small body of experts of not less than 3 and not more than 7, appointed by the Provincial Government. All the members are to be whole-time expert members.

Under Chapter IV of the Bill - Section 18 onwards specific provision is made for the Board to be a functional body.

Under section 16, a Provincial Electricity Council has to be brought into existence, which is an advisory body. This Council will have on it representatives of several interests, and will advise the Board on major questions of policy and major schemes. It will also review the progress and work of the Board.

Section 17 provides for Local Advisory Committees.

The Bill provides that the Ministerial control over the Board will be limited to general policies.

It will be seen from this, that the Bill covers all the points made in para. 86.

Para. 87 :- This para. reiterates that public corporation should be subject to Ministerial control only in matters of general policy and that interference in matters of internal organisation or administrative details should be avoided. The Committee has also recommended that before issuing directions to a public corporation, the Minister should consult the governing board on the points involved.

I am entirely in agreement with the above ~~it~~ views.

As regards the first part of the recommendation, as stated previously, it has been taken care of in the Indian Electricity (Supply) Bill.

As regards the second point of consultation with the Board by the concerned Hon'ble Minister on the points involved before issuing directives on policy, I have no doubt that this will be found to be the best way of working.

Para. 88:- The most important point made in this para. is that a public corporation should be given the benefit of cheap borrowing on Government account or with Government guarantee. It has also been recommended that a free hand should be given to the Corporation in the financing of the industry so as the enable it to cover the cost of its operations by its receipts and to lay by sufficient surplus to meet such financial oblications as interest, sinking fund, and depreciation, and obsolescence charges. The Committee also has not ruled out State assistance to the Corporation.

Here again, I am in entire agreement with the views of the Committee. The Indian Electricity (Supply) Bill takes care of all these points and provision has been made in Chapter VI of the Bill covering these various points. For instance, Section 59 provides that the Board shall not, as far as practicable and after taking credit for any subventions, carry out its operations at a loss. Section 63 provides for Government subventions to the Board. Section 65 provides for powers of Board to borrow. Section 66 provides that the Provincial Government may guarantee the payment of principal

and interest of any loan proposed to be raised by the L
Section 68 provides for depreciation reserve.

In this connection, a very important point made the Committee is that the public corporation should be give the benefit of cheap borrowing on Government account or with Government guarantee. It would appear to me that the former will be found to be cheaper by 1/4 to 1/2 per cent than the latter procedure. If, however, it is not found practicable for the financial requirements of a Board to be met wholly by borrowings on Government account, at least the first few years' requirements of the Board should be so met. During this period, the Board will have created its assets and established to some extent its reputation. This, along with the Government guarantee as to the principal and interest, may enable it to borrow almost as cheaply as Government itself. As regards the treasury control, the Indian Electricity (Supply) Bill provides more or less on the lines of recommendations of the Committee For this, reference is invited to various Sections of Chapter VI of the Bill on the Board's finance, Accounts and Audit.

Para 89:- In this para., the Committee recommends that the provision for previous consultation with the advisory committees should be made in the matter of rate variations.

Under Section 79(h) of the Indian Electricity (Supply Bill, the Provincial Board can only make any regulations covering principles governing the fixing of Grid tariffs, with the concurrence of the Central Electricity Authority of the Government of India. It will thus be noted that the point made by the Committee is already met.

Para. 90 :- The point made is that service under the Corporation should not be treated as service under Government and the Corporation should select its technical staff by ad hoc Committees of experts.

The observance of these two points is inherent in

the various sections of the Indian Electricity (Supply) Bill.

3. On the whole, I am of the opinion that, generally speaking, all the recommendations made by the Committee in paras. 84 to 90 have been given effect to in the various Sections of the Indian Electricity (Supply) Bill, under the provisions of which, the proposed Provincial Electricity Boards will work.

Sd/-

Electrical Commissioner

with the Government of Bombay.

Id/-

28.7.